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accounting legislation:

**a
plan
for
action**

Committee on State Legislation
American Institute of Certified Public Accountants

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Talks given at the
Third National Conference
on State Legislation
September 1968, Chicago

Committee on State Legislation
American Institute of CPAs

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666 Fifth Avenue, New York, N. Y. 10019

Foreword

In September 1968 the American Institute of Certified Public Accountants, through its committee on state legislation, sponsored the Third National Conference on State Legislation. The papers presented at this meeting and the conclusions arrived at in the discussions seemed to be of a sufficiently high order to warrant publishing them in booklet form. The committee hopes that this booklet will serve as a guide to state CPA societies in handling the many different types of recurring legislative problems.

American Institute of Certified Public Accountants Committee on State Legislation, 1967-1968

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Planning for Legislative Action

Max Myers, CPA, Member, AICPA Committee on State Legislation; Former Chairman, Missouri Society Legislation Committee

PLANNING COMES EASY to certified public accountants. It is one of the standards of our professional service and we use it every day in our audit work. Too often, though, when we get outside our normal professional practice, we forget that planning is a basic requirement for the management of *all* affairs.

Planning for legislative action does not differ much from planning for professional engagements. It consists of both preplanning and planning activities. Preplanning, however, is more important in legislative work because political activity is not a field with which many of us are well acquainted. Any legislative activity, moreover, runs as great a risk of damaging the profession as helping it. Because of the affection and respect we feel for the profession, we have a responsibility to avoid harming it in any way. This is another reason why careful planning is important.

Objectives

Before we begin to formulate a legislative program, we must have clearly in mind what we want to achieve, both for ourselves and for the profession. What status do we wish to have with the legislature? How do we want to regard ourselves when the legislative campaign is over? How do we want the profession to be regarded? Do we want to be thought of as "wheeler-dealers," seeking to promote our own selfish interests at any price, or do we want to be thought of as reasonable, responsible professional men looking after

our own affairs—and not at the expense of the public in general or of other groups in particular?

The answers to these questions are clear. We want to be thought of as responsible and reasonable men. In making this decision, we will have to make three important commitments:

1. We will use only ethical campaign tactics.
2. We will conduct ourselves in a manner that befits professional men.
3. We will assume that legislators will act in the same way.

The CPA's Reputation

In representing our profession before the legislature, our conduct becomes more important in the long run than whether we win or lose. Good accounting legislation *may* promote the profession, but even without laws, there would still be a need for CPAs, because we render a meaningful and significant service to important groups in society.

Credit grantors, investors, businessmen, and many others need the confidence that our certificates and professional opinions give them. Government revenue, for example, would be substantially reduced without the work of CPAs. Our professional status, therefore, hinges neither on our title nor on the enforceability of the state accounting laws. With this in mind, CPAs can approach legislative work with a great deal more tranquillity. Various laws and regulations are, in my opinion, primarily means of assisting the general public to recognize where they ought to put their confidence. The truth of this can best be illustrated by our ability to practice successfully despite the lack of national uniformity in accounting legislation.

We exist because of our services and the way in which we render them, and because of our reputation for integrity. There is no place that this reputation becomes more evident than in our work with the legislature. This is why I say that the way we play the game is more important than whether we win or lose.

"Reconnoitering"

Planning is similar to what the military would call a "reconnoitering" operation. We want to look around to see who we are working with, what we will be working with, who the legislators are,

and what the legislative system is like. We need to do our reconnoitering very well, remembering all the time that, in the legislative campaign, there is only one group of persons who are important to us—the legislators. It is easy to become involved in legislative work and do everything except talk to the legislators. You can talk to the lobbyists, the secretary of the Senate, chief clerk of the House, and so forth, and they may all agree that your legislation is wonderful. The problem is, however, that you haven't talked to the *legislators*.

We should know something about these legislators. Personal acquaintanceship is of the utmost importance. This is part of the planning, but it is part of preplanning too. I strongly recommend that you plan to have your legislative leaders speak at various society or chapter meetings. Plan to have formal and informal get-togethers between legislators and CPAs. They need to know each other personally. While a few CPAs may be acquainted with legislators, most are not.

Legislator Support

Having reconnoitered the political arena in our preplanning activities, we can begin the planning necessary for a successful legislative campaign.

First, we must educate legislators about the accounting profession. Legislators should be given background information on what CPAs do, who they are, and on the profession in general. You may not have problems with this in the highly industrialized eastern states where legislators are more accustomed to the trappings of civilization. In more "primitive" states, like my own state of Missouri, there are legislators who do not understand what CPAs do or even why they exist. It is important, therefore, to provide legislators with basic background information about the accounting profession and the reasons for our existence, or at least *our* reasons for our existence.

The second task in planning is to develop support among legislators. The best way to do this is to have individual CPAs donate time and money to the campaigns of state legislators. While it may be inappropriate for CPA societies to engage in political campaigns, it is highly desirable for individual CPAs to do so. All CPAs, as well as officers of CPA societies, should make it a point to become acquainted with their local legislators.

Educating legislators about the accounting profession and en-

couraging CPAs to develop contacts with legislators are simple points, but they are often overlooked. Regardless of whether or not a CPA society is currently contemplating legislative activity, it should continually be working to solidify its legislative position.

Membership Support

In either sponsoring or opposing legislation, a CPA society needs the support of all its members. Unfortunately, the members of a professional society are usually too willing to let the officers of the society watch over the profession's interests. One or two persons, however, cannot hope to maintain influence over all the members of a state legislature. From another point of view, one or two persons should not be given such great responsibility and freedom in making decisions which could have a major impact on the profession.

To galvanize support among members of a CPA society, the officers and legislative committee members should make it a point to discuss proposed legislation both at chapter and society meetings and with as many individuals as possible. If the legislation is at all controversial, these discussions may help to achieve unity. All this preparatory work among members of the society should be done several months prior to the introduction of the legislation.

While it is desirable to have as many society members as possible actively supporting legislation, the society should have someone of skill and diplomacy to represent it at hearings and in negotiations with legislators and opponents. This doesn't mean that a number of spokesmen cannot be used. There should be, however, one leader who makes, or seems to make, the final decision on controversial issues. If you do not have one spokesman with whom all matters can be cleared, you are liable to have various members making conflicting or unauthorized promises to legislators. This situation may be damaging not only to the fate of legislation, but also to any future dealings with legislators.

Overseeing Legislative Activity

The organization of the society for any legislative effort is another important part of planning. Broad membership support is essential. In Missouri, we accomplish this by organizing specific groups of members for specific purposes. A small group of members, includ-

ing the society's spokesman, is put in charge of day-to-day activities in the legislature. A larger group of members is assigned the task of getting in touch with legislators. An even larger body of members, representing all segments of the profession, is established as an advisory group to provide guidance on major policy questions which inevitably arise during a legislative campaign.

The success or failure of a legislative campaign is often dependent upon which legislators are supporting or opposing the bill. Selection of a floor manager in each house of the legislature, therefore, may be one of the most important decisions of the legislative campaign. A floor manager should be an experienced and highly respected member of the legislature, preferably of the majority party. Often, good legislation may fail to be enacted simply because it is sponsored by a member of the minority party and, for this reason, the members of the majority party will not support it.

The assignment of the bill to committee is another important matter. Whether or not the bill will emerge from committee intact and with a recommendation that it be passed may depend on which committee it is assigned to. For this reason, the society should establish contact with the legislative leaders who assign bills to committees. Once it is clear to which committee the bill will be assigned, the chairman of that committee should be approached by the society's leaders and, hopefully, by members of the society who know him. Legislators are more likely to listen to their friends than to persons with whom they are not acquainted.

In addition to personal conversations, it may also be helpful to distribute an appropriately titled memorandum or position paper about the bill to each legislator. The document should set forth why the legislation is in the public interest. Never assume that any man is in the legislature except to serve the best interests of the public. The legislation should be presented with this in mind. Explanations of how the bill will protect the public, help business, and improve the profession must be its primary selling points. Showing that the bill will not arbitrarily or unreasonably affect other groups is also important.

To ensure that you are properly and adequately informed about the bill's progress, it is desirable to set up a line of communication with the legislature in addition to the one with your floor managers. This will promote fidelity on the part of your floor managers.

As is often the case, the bill may be opposed in part or totally

by various groups. In some cases, prior consultation and compromise with potential opponents may minimize these problems. If not, the society should decide, prior to the introduction of the bill, in what areas and to what extent it might be willing to compromise on its bill.

Summary

A successful legislative campaign is usually a well-planned legislative campaign. Without proper planning, the profession may be harmed. In planning legislative action, it is necessary to keep these objectives clearly in mind. Our legislative strategy and tactics should be carefully formulated and our efforts well organized. Yet our legislative goals, no matter how desirable they may be, should never be allowed to overshadow our commitment to accuracy, integrity, and responsibility to the public—the hallmarks of our profession.

Execution of a Legislative Campaign

Willard H. Erwin, Jr., CPA, Member, AICPA Council; Member, AICPA Executive Committee; Past President, West Virginia Society of CPAs; President, West Virginia Tax Institute, Inc.

SINCE THE PLANNING and the execution of a legislative campaign are interrelated, my talk will necessarily reiterate some points that Max Myers [see p. 1] has already made. Although my legislative experience has been solely in West Virginia, I think that it may be applicable to other states.

Since my topic concerns the elements of a successful legislative campaign, it might be appropriate if I defined my terms. A "campaign" is generally defined as an organized series of activities designed to obtain a definite result. It may also be defined as a series of military operations conducted to achieve an objective in a particular area. There is much similarity between a legislative and military campaign. A successful legislative campaign, like a successful military campaign, often depends on careful reconnoitering, a highly motivated and disciplined organization, and proper execution of a predevised plan.

In 1959, the West Virginia Society successfully sponsored a regulatory accounting law after a long and bitter legislative battle. This success was preceded by six unsuccessful legislative efforts made before we learned the necessity of proper planning. Previously, we simply decided that we wanted to sponsor accounting legislation at the last minute, and then rushed around trying to get someone to

draft and sponsor the bill. It is not surprising, therefore, that our frantic efforts always brought failure.

Drafting the Bill

An important matter preceding any campaign is the drafting of the bill. I strongly recommend that you have the legislation drafted by a lawyer who is familiar with the accounting profession and the particular legal precedents of accounting legislation. It makes no sense to spend a lot of time and money enacting a law which is legally defective. Just as it is important that the original bill is drafted carefully, so it is equally important that any amendments to it receive the same careful attention. In fact, it is helpful to anticipate where you might have to compromise and have amendments prepared beforehand.

Enlisting Support

Once the bill is drafted, the next step is to contact legislators. This contact should begin before the legislature is in session. In reviewing my files of our campaign in West Virginia, I discovered that I personally contacted every single member of our legislature during the six months preceding the introduction of the bill. In each visit, I discussed the purpose of the bill and what we hoped to accomplish.

In addition to exposing the proposed legislation to legislators prior to its introduction, it is also helpful to solicit the support, or at least the neutrality, of important groups in the state. In our campaign we sought the assistance of the state bar association and the state bankers association. We also discussed the bill with the West Virginia Education Association, an organization of considerable influence in our state.

Discussing the bill with lobbyists may also be helpful. It has been reported that for each member of Congress there are at least ten lobbyists in Washington. This same proportion probably exists at the state level as well. Because it is their business, lobbyists are likely to have closer ties with legislators than do CPAs. CPAs are generally political amateurs who care little about legislation until after it is enacted and starts to affect them.

While lobbyists may be extremely helpful in dealing with legislators at the state capitol, members of CPA societies can have an

important influence in local communities. Legislators, after all, try to maintain close contact with their constituents, even when the legislature is in session. Organizing the CPA society members to get in touch with every member of the state legislature is an important part of organizing a legislative campaign. Certain legislators—those who serve on legislative committees which will determine the fate of the bill—should be singled out for special attention. In some areas of the state, there may be no CPAs. In such a case the assistance of groups or lobbyists may be necessary.

In his talk Max Myers mentioned the entertainment of legislators. Some legislators resent attempts to wine and dine them for political reasons. Others won't listen to you at all unless you treat them to a free meal. This matter, like all dealings with state legislators, must be handled on an individual basis with great sensitivity to personalities. The way to approach one legislator might be the way to antagonize another.

Planning for Possible Opposition

Knowing your opposition is an important part of a legislative campaign. To be unaware of potential opponents and unprepared to reply to their arguments could prove fatal to your cause. In many situations, it is not difficult to anticipate from which quarter your opposition will come. Sometimes, of course, opposition will arise from unexpected sources.

The biggest objection I found to our regulatory bill at the committee hearing was from committee members themselves. One committee member with two sons was opposed to our bill because his sons would not be old enough to qualify for licensing on a grandfather basis on the effective date of the act. Another committee member was disturbed because his daughter was also too young to qualify for licensing. When a compromise was reached extending the grandfather registration period so that the children of these legislators would be eligible for licensing, the bill was favorably reported out of committee and subsequently enacted by the legislature.

On a number of occasions, our society has discussed legislative matters with the West Virginia affiliate of the National Society of Public Accountants. These exchanges of views have been fruitful. While we have not always agreed on all matters, we have gotten to

know each other better, thus avoiding needless misunderstanding and hostility.

The Fight Against Ignorance

Max Myers also mentioned the great ignorance of the general public about CPAs and what they do. In fact, if you stopped ten people at random on the street and asked them what a CPA does, you would probably receive many blank stares in return.

Legislators as a whole are not any more knowledgeable about the CPA's duties than the public. They do not, for example, have any idea about what responsibility a CPA assumes for the financial statements on which he expresses an opinion. I recall one legislator who was a salesman and who also moonlighted by preparing individual tax returns. Until he was convinced that the proposed regulatory public accountancy bill would not prevent him from continuing his side business, he opposed our bill. Thus a legislative campaign must take into account the ignorance of the general public and legislators about the accounting profession. Accounting legislation is not of great interest to persons outside the profession.

In any legislative campaign, a lot of effort must be spent educating legislators about the profession. CPAs, not lobbyists, must assume this burden. Ideally, of course, a CPA society should begin this educational effort long before the introduction of legislation. Good relations with legislators are not established overnight.

Advance Preparation

A legislative campaign should be preceded by careful planning and preparation. Often this preparation takes place over one or even two years. This period of time may be necessary to train the members of the society who will spearhead the legislative campaign.

Because of the differences between state legislatures, it is not possible to generalize about campaign strategy and tactics on the state level. It is important for CPA societies to develop their own legislative experts. Hopefully, a group of members will become knowledgeable in the legislative area. Dependence on one or two individuals for legislative guidance is undesirable and unwise. If a society has only one legislative expert and this expert is unwilling

or unable to continue on the job, the society may find itself with some serious problems which are unlikely to be resolved quickly.

The success of the legislative campaign is often dependent upon the ability of a society to arouse and mobilize its members to action. While the quality of leadership is important, the participation of members in the campaign is crucial. Because accounting legislation affects the public as well as the profession, CPAs have added reason to be concerned about legislative effort. High standards of accounting regulation must be our primary goal.

Developing Better Relations With Legislators and Government Officials

Gordon H. Scheer, Executive Director, Colorado Society of CPAs

WE HAVE ALL EXPERIENCED frustration in our work with legislators on discovering that they look upon CPAs as just another special-interest group. It also becomes evident to every budding lobbyist that good relations with legislative officials are not accidental, nor are they likely to be established in a brief period of time. My discussion has to do with activities that can help develop and maintain close and continuous relationships with government officials and legislators on a year-round basis. This discussion will be divided into three major areas: (1) direct political action; (2) government-oriented public service; and (3) involvement in public issues.

Direct Political Action

How do you gain influential and effective political and governmental support? There is only one answer—become active in politics. It is essential that CPAs and their professional organizations be strengthened in their political awareness and their political effectiveness. Politics profoundly shapes the character of government, and there is probably no group more affected by government than CPAs.

When discussing political involvement, we should think *beyond* accounting legislation. This is, of course, a major reason for CPAs to become more effective politically. But as members of a highly respected profession, CPAs cannot be politically effective if their concerns do not transcend self-interest legislation.

We must approach politics as citizens with an interest in better

government, not as members of a special-interest group trying to curry favors for use when accounting legislation comes up. As citizens, we must perform our civic duty in the party of our choice, recognizing that we have unique talents which increase our social responsibilities.

A CPA society that is building sound political and governmental relationships for the future is a society whose representatives are involved daily in the legislative process even though no matters involving the accountancy law are pending. These men are meeting with legislative committees that are considering amendments to income tax proposals, new requirements for fiscal responsibility for local government officials, safeguards and standards for pension and welfare funds, or any subject upon which the CPAs can offer some special expertise. The relationships built through this kind of activity will be invaluable when the accountancy law comes up for amendment.

An organization is very naive to appear at the state capitol only when its self-interest is threatened. It will not earn the respect of legislators that way.

I have stressed that there is an intimate relationship between government and politics, that politics shapes government, and that, if you want a voice in shaping government, there is no alternative to becoming active in politics. This fact has been recognized by other state and national organizations for a good many years. The labor movement recognized the importance of political action and formed an organization known as COPE (Committee on Political Education), which in turn spawned a great many imitations in other organizations all over the country. These include: AMPAC (American Medical Political Action Committee) and BIPAC (Business and Industry Political Action Committee). There are similar organizations at the state level such as Colorado's COMPAC (Colorado Medical Political Action Committee) and PACE (Political Action Committee on Education).

These are all organizations which *theoretically* have formed spontaneously. Actually they are carefully planned instruments for divorcing political activity from nonprofit parent organizations. Each of these organizations has one major function—to get candidates elected who are sympathetic to their point of view. Generally they do this by making contributions to individual candidates and by interesting and educating their members in political action.

These political action committees raise funds from members of their professions or unions. The funds are used to support the staff and to make political contributions. Some groups, such as PACE, also publicly endorse candidates—including candidates in primary elections—and contribute to their campaigns. In most cases, AMPAC and BIPAC do not make their support public, but make contributions quietly to the candidates they feel are the most worthy of their favor.

State Society Activities

Such organizations offer the greatest opportunity for political action at the state society level, and in several states similar organizations are in various stages of development.

Pennsylvania CPAs have organized the Certified Public Accountants Political Information Committee. This committee is not concerned with formulation of legislative policy, and its activities are limited to supporting legislative objectives as determined by members of the profession. The committee believes that CPAs in Pennsylvania will speak much more effectively in the state capitol if efforts are conducted on a collective basis; that CPAs must be prepared to assist candidates for state office who will be sympathetic to their problems; and that CPAs must be represented at significant political fund-raising affairs. A group of CPAs in Houston, Texas, has established a similar program.

CPAs in Illinois have formed a political action committee whose purpose is both promotional and educational. Although the committee will make contributions to candidates, it has also enlisted about 50 CPAs as political volunteers, each of whom will personally become active in the campaign of a legislative candidate. In addition, the committee is publishing a brochure about its program, the functions of these volunteers, and information about the legislative process.

In some other societies political action is on a more informal, personal basis. In one, the executive director is active in soliciting campaign funds from members and personally participates in fund-raising dinners. At least one executive director is very active on a nonpartisan basis, and keeps up a program of year-round personal and social contact with legislators.

In some states, including Colorado, the society's executive director

is politically involved and makes contributions on a purely personal basis. As an example, I am deeply involved in party politics and find that, as a Republican who is active at the state level, my contacts with governmental officials and legislators are more personal than those of almost any other lobbyist in the state capitol. Of course, it helps that the state has been under Republican control for the past six years. But the interesting thing is that my contact with members of the opposition party is much better because of my political activity.

Please keep in mind that these are all suggestions to be considered in the light of your own state's circumstances. A CPA political action committee may have promise, but it has to be related to the local situation. What could be particularly effective in one state could be disastrous in another.

Organizing the Society for Political Action

To get your society started on the road to greater political activity, it is important to take advantage of existing opportunities. Later you can embark on a program to increase these opportunities. You should first consider the establishment of a political program that would motivate members to participate in politics and would provide educational material on the issues, the candidates, and the mechanics of political participation.

The first step in the establishment of such a program is to inventory the political involvement of members of your society. This could be done by sending a questionnaire to each member, asking not so much for his social or business relationships with legislators, but for the *extent* of his political activity. The questionnaire should ask whether a member is registered as a Republican or a Democrat, and if so, whether his activity in the party has extended beyond mere registration. The questionnaire should determine the level of his involvement, the type of work done, the section of the party he has worked in, whether he has worked for the county, city, state, or on behalf of a particular candidate, organization, or political club, and whether he has contributed financially to any political campaign.

We have normally relied on members who know legislators socially or professionally; this is not too effective, although it is certainly better than nothing. Fifty CPAs with slight business or social contact with a legislator can urge him to take a certain posi-

tion. That same work could be done or undone by one man who has been very active through the years in the party and has personally worked hard to get this man elected. I'm a firm believer in doing only the minimum lobbying to get the job done. I much prefer a brief contact with a legislative committee chairman through a close political ally than a massive letter-writing campaign.

Once an inventory of political involvement is taken, you'll have a foundation on which to build. You can then encourage members who are active politically to help get other CPAs started in politics. For instance, a member who is a precinct committeeman in the county, works in a fund-raising campaign at the state level, or is in charge of a special group campaign for a legislative candidate is in a good position to recommend workers for other phases of the campaign. In an election year, you could double or triple your political contacts with little effort through members already active in politics.

Training can be done through Action Courses in Practical Politics, a regular training program of nine sessions developed by the U. S. Chamber of Commerce. The sessions are two hours each and cover many useful topics. Training may also consist of a 2- or 3-hour session led by someone active in politics and including representatives of both parties. Much printed material is available on legislative action and there are also some good training films prepared by COPE and AMPAC.

Public Service Activities

Let us now consider those public service activities which are not concerned solely with the establishment and maintenance of good relations with government officials and legislators. Some of the best contacts and the best relationships are built when a society is working actively on a proposal for better government and is not directly trying to promote its own self-interest. In California, Wisconsin, and many other states, specific committees have been established to develop closer relationships with government agencies. A committee may have as its major function liaison with the state securities commissioner, the state insurance commissioner, or with other officials that have some interest in common with the profession. In smaller states, each member of a special governmental committee might be assigned the responsibility for liaison with a particular state

agency. It is important to be aggressive and seek out opportunities to serve rather than merely sit back and wait for opportunities to arise by chance.

In Michigan a number of CPAs participated in a little Hoover commission—a governor's task force to study state government. This involvement brought a great deal of favorable publicity to the profession in the state. In Colorado, a CPA has been appointed chairman of a similar group.

In cooperation with the League of California Cities, the California society provides an award for the city which has made the greatest improvement in some area of accounting. This has developed closer relationships on a year-round basis with municipal officials.

Several years ago the Colorado society undertook an effort to change the Colorado income tax law to one that would be based on the federal Code. The first step was to develop and pass a constitutional amendment; this required approval by the legislature as well as by a majority of voters in a general election. A joint committee representing the state society and the Bar Association developed a constitutional amendment which was passed by the legislature and placed on the November ballot. The society then led the campaign by raising \$15,000 from its own members, trust departments of banks, and others interested in income tax simplification. A public relations firm was hired, and a vigorous campaign was waged to convince the electorate of the desirability of this proposed amendment.

A major prerequisite to the success of the campaign was to convince newspapers to take an editorial stand in favor of it, and with a few exceptions, this was done. Many of these newspapers editorially complimented the Colorado society for developing a proposal to simplify the preparation of tax returns even though this appeared to be working against the CPAs' own interests. The proposal was passed at the general election. The society and the Bar Association then prepared and successfully sponsored a new income tax law to implement the constitutional amendment.

Involvement in Public Issues

One last point I'd like to make is that to become an important force in civic and governmental affairs, the profession must par-

ticipate to a greater extent in general matters of the public interest. John L. Carey in his book, *The CPA Plans for the Future*, indicates that “the definition of a profession includes the provision that it has a social obligation and that its work is endowed with public interest.” These responsibilities “run both to individual CPAs or firms and to their professional organizations.” If the profession is to gain in prestige and influence, it must play a role in solving the great economic, social, and political problems of our times.

Summary

In summary, if we want to have a voice in government, and that's what all our efforts aspire to, then we have to get involved in the force that shapes government—and that is *politics*. This can be done collectively through a political action committee and individually through our own efforts. A function of a professional society is to motivate and educate its members for political action and to encourage the formation of an independent committee to raise funds for campaign contributions.

At the same time, we should be alert to possible public service activities and we should not hesitate to take a stand on certain public issues when we have something of particular importance to offer.

If we as a profession are aware of our social obligation to contribute to better government, the benefits to our own interests will also be great.

Pros and Cons of Professional Corporations

Marvin L. Stone, CPA, Past President, American Institute of CPAs; Past President, Colorado State Board of Accountancy; Past President, Colorado Society of CPAs

INCORPORATION of professional firms is coming in for more and more discussion throughout the country. It seems to me that a great deal of this interest—at least among other professions—is tax-motivated. But, in the accounting profession, I believe that most of the interest is the result of the tremendous number of lawsuits that are being brought against accounting firms. It is this impetus that has caused accountants to consider incorporation as a possible shield against the rigors and problems involved in the practice of accounting.

A number of states have already removed the bar against incorporation of CPA firms. However, in most of those states, few, if any, CPAs have ventured to practice in corporate form because of prohibitions against its use in the ethics rules of the American Institute and of CPA societies.* Consequently, the members of a firm that decide to incorporate do so at the risk of being no longer eligible for membership in a professional organization at either the state or national level. In light of this heightened interest, it seems worth-

*ED. NOTE: Subsequent to this Conference, on December 30, 1969, AICPA members voted to accept an amendment (Rule 4.06) to the Institute's Code of Professional Ethics, permitting incorporation of CPA firms which possess the characteristics included in the Council resolution of May 6, 1969.

while to examine some of the pros and cons of lifting the rule against incorporation. Talking about the pros and cons of ethical prohibitions against corporate practice, of necessity, requires some discussion of the pros and cons of incorporation itself. However, I am not suggesting that everyone should or might find it advantageous to incorporate. I merely feel that the rule which prohibits incorporation should be lifted since, in my opinion, there does not seem to be any public or professional interest served by its continued existence.

The rule was self-imposed, not forced on us by anyone else. It was started at a time when most of the other professions either prohibited themselves from incorporating or, at the very least, looked down their noses at the corporate form as not being normal "trap-pings" of a professional firm. All the other professions have now abandoned the rule. National organizations representing lawyers, doctors, dentists, architects, and engineers do not prohibit their members from practicing in the corporate form.

It is also interesting to note that accountants in many other countries can and do incorporate. This is the case in France, Germany, Italy, Sweden, Denmark and Switzerland.

There are even a number of firms in this country that are operating in corporate form, largely under grandfather provisions because they were incorporated before the ban against corporate practice was enacted.

Professions as a whole are experiencing a trend toward group practice. Larger firms are needed to meet the needs of larger clients. If anything, public accounting has been more affected by this trend than other professions.

Partnership Often Inadequate

The partnership form is inadequate, in my opinion, to accommodate the needs of large CPA firms. A corporation is a better way to organize manpower and capital to accomplish the goals and the objectives of a CPA firm. Most firms of any size have already adopted many, if not all, of the corporate characteristics even though they are still organized as partnerships.

All of us in our daily practice are often called upon to advise a client on his manner of doing business. Imagine, if you would, a client who asks you for advice as to whether he should operate in

partnership or corporate form. He tells you that he has three, or 30, or maybe even 300 partners; that he plans to admit more partners continually; that he is doing business in several states; that he is highly vulnerable to lawsuits; and that he has constantly increasing capital and personnel needs. Imagine suggesting to such a client that he operate in *partnership* form.

Under the circumstances that we have been faced with, of course, partnership agreements have been fashioned in such a way as to accommodate the needs of practice. However, they have simulated corporate characteristics as much as they could. Firms have been encouraged for many years by the American Institute and by every knowledgeable writer to plan for survival. This is considered to be in the best interest of the client, the profession, and the employees. Yet perpetuity is not a normal attribute of a partnership. The Uniform Partnership Act actually states that a partnership dissolves on the death or withdrawal of a partner. We have been forced, therefore, to dress our partnerships in corporate raiment to get around the impact of this rule.

I would now like to discuss some of the advantages and disadvantages of the corporate form.

Advantages of Corporate Form

Again, I stress that I am not here to sell incorporation. It does not seem to me that any CPA should convince any other CPA to incorporate or not to incorporate. I merely summarize these advantages to give some strength to my argument that the rule against incorporation has no place in the rules of professional conduct of the American Institute, the state CPA societies, or the state boards of accountancy.

Continuity. It seems to me that this is one of the major advantages since we are attempting to encourage continuity of benefits to personnel, clients, and to the profession.

Limitation of liability. This is probably the most important single reason to consider the corporate form. For many years now, CPAs have worn the badge of unlimited liability as though it were some kind of medal of honor or guarantee of virtue. I do not think it is either of these things. It is difficult to understate the problems created by the recent spate of lawsuits against accountants, which

may eventually result in the unavailability of liability insurance.

Increasing numbers of persons are making reference to financial statements on which CPAs have expressed their professional opinions. There are some 24 million stockholders investing daily, making bets on what will happen to various stocks. Everybody, of course, likes to find a fall guy to blame for bad judgment. Consequently, CPAs can expect to hear more and more complaints, and also to see more legal activity directed against them.

Accumulation of capital. The corporate form encourages the accumulation of additional working capital. A growing accounting firm has the same financial needs as any other growing firm. Funding the growing pension obligation of partners is a real capital need. To do this with after-tax profit is a costly way to meet these obligations.

Tax Benefits. This is a fourth advantage (or perhaps disadvantage, depending on where you sit and what size firm you are in). As I indicated before, perhaps most of the impetus, outside our profession, for incorporation has stemmed from potential income tax savings.

Some critics of the idea of incorporation have stated flatly that there are no tax benefits and that there might even be tax detriments. They have cited the problems of proving the reasonableness of salaries for officers, the possibility of unreasonable accumulation of capital, and many other tax problems that are often associated with corporations.

There may very well be more tax *problems* than tax benefits resulting from use of the corporate form. That is why I am not offering this as a strong reason for eliminating prohibitions against its use. I believe there may be tax savings for some, perhaps for many, firms. But I do not wish to belabor this point because I do not feel that this is the most important justification for removing the prohibitions against the corporate form.

Facilitation of personnel recruitment and retention. This is an important advantage to the corporate form in today's personnel market. I need not tell you how difficult it is to attract and retain good staff. It seems to me that incorporation would, at least to a knowledgeable young man, make very good sense. If I were a potential recruit, I would have some concern about unlimited personal

liability and about the tremendous past and future pension cost that I was undertaking for all those persons that had come before me.

Funding of the pension obligation, I think, is going to be a serious problem. In case you feel that young men won't think about this, you may be assured that some of the recruiters with whom we compete in the personnel market will think of it and bring it to the attention of these bright young men.

Ease of transferability at time of retirement and death. This is a minor, but not unimportant, factor. Certainly, we have to contrive some rather complicated and unusual arrangements in partnerships to accomplish what is rather easily done by transferability of shares in a corporation.

This is not to say that each of us would be able to trade our shares of stock just as we would those of AT&T. It is certainly not conceivable to me that I will be buying shares of Arthur Andersen or Price Waterhouse on the New York Stock Exchange. However, the same kinds of provisions that we now have in partnership agreements will, undoubtedly, obtain when any firm incorporates. There will be buy and sell agreements limiting the transferability of stock in much the same manner as partnership agreements now limit the sale of partnership shares. So, it is not my suggestion that incorporation be used to provide an easy marketability for our shares.

Bonding. This last item is somewhat minor, but may not have occurred to many of you. I am speaking of the possibility that the members of an accounting firm could be bonded if the firm were a corporation. As most of you probably know, it is not possible to bond an entrepreneur or partner for his own acts. Consequently, a CPA who is a partner in a large, multi-office firm and performs acts susceptible to all types of liability cannot be bonded for any damage he might inflict on his own firm.

If the firm were incorporated, however, it could take out a blanket bond on CPA-shareholders just as any other corporation does on its key employees.

Disadvantages of Corporate Form

Personal Relationships. It has been said that we would lose our personal relationship with our clients if we practiced in corporate form. I don't believe this, because I do not think that the form of

our organization has anything to do with the relationship that we maintain with our clients. Some firms even now maintain a very impersonal relationship with their clients.

Higher Taxes. Some critics have said that we would pay higher taxes. I can only say that this is possible, and if so, a firm would have to decide whether it was worthwhile to incorporate. I am not suggesting that incorporation be mandatory. I am suggesting only that everyone have the same right to make the decision as any other member of the business or professional community.

Lower Standards. It has also been said that limited liability would foster lower standards. No one, however, argues against carrying liability insurance for the same reason. Lest I am misunderstood, let me emphasize that a CPA's principal protection against negligence claims is his ever-increasing proficiency and vigilance in guarding against substandard work. Anything else would provide only symptomatic relief for the underlying liability problem. Nevertheless, there is no reason to deny CPAs the same remedies, symptomatic or otherwise, which are available to the rest of the professional and business community.

Recommendations

I am suggesting, in essence, that the Institute change its Code of Ethics so that the prohibition against corporate practice is either eliminated or modified to permit CPAs to incorporate under reasonable standards.

I think CPAs should be permitted to incorporate under a general corporation statute, not under some special corporation law which does something less than limit liability. Limited liability could be tied, as has been done by the bar in Colorado, to the purchase of liability insurance. This seems very sensible to me and, by the way, has encouraged some 20 law firms in Colorado to incorporate, including a few firms with four or five partners.

As most of you know, until 1953, the New York Stock Exchange precluded its member firms from incorporating. In that year the ban was lifted, and, since that time, over 25 per cent of the firms have incorporated.

In 1963, the financial empire of Tino DiAngelis collapsed, and, in its wake, an old, respected stockbrokerage firm went bankrupt

along with all its general partners. The rate of new incorporations among stockbrokers, needless to say, has risen sharply since 1963. I hope we will not wait until some similar catastrophe befalls some old, respected CPA firm before our profession eliminates or modifies its rules on the permissibility of corporate practice.

Recommendations for Improved Accounting Education

James H. MacNeill, Dean, School of Business Administration, Fordham University; Consultant, AICPA Committee on Education and Experience Requirements for CPAs

MY MISSION TODAY is threefold: (1) to make some brief comments about *Horizons for a Profession*; (2) to discuss the paper "Academic Preparation for Professional Accounting Careers"; and (3) to draw some general conclusions about both works.

You cannot say very much about education in business without reference to the historic year 1959 when the Ford and Carnegie Foundations' reports were published. These reports took business education to task. They criticized the proliferation of specialized and overlapping courses and the over-emphasis in business curricula on procedural rather than substantive matters.

Changes in Business Curricula

Since 1959, there has been a great deal of progress in business education. At first, there were only changes in form. Course titles in catalogues, for example, were changed. In one textbook, a chapter that in the previous edition had been called "Accounting for Accounts Receivable" was changed to "Management of Accounts Receivable." Since then, of course, there have been some very substantial changes. The number of specialized courses has decreased. You will rarely see in college catalogues a course in bank accounting or a course in brokerage accounting. In our curriculum today, there is less stress on description and more stress on management. There

is a greater emphasis on analytical courses, not only in the accounting program, but in the entire business curriculum. An important part of this change occurred in the liberal arts which, in most collegiate schools of business, constitute 50 per cent of the curriculum. These changes in curricula may have been triggered by the Ford and Carnegie reports, but they would have happened in any case in response to changes in the business environment.

Increased involvement by CPAs in what has come to be known as management advisory services has also been an important impetus to change. Of course, the advent of the computer and the feasibility of applying sophisticated quantitative techniques to the solution of business problems has also been important.

Horizons for a Profession

The common body study was started in response to the demand for a new look at an accountant's education. Despite the fact that *Horizons for a Profession* was published by the AICPA (1967), it is not an official pronouncement of the Institute,* but is the opinion of the authors—Dean Roy and myself.

The book was not concerned with curriculum for a very good reason. Dean Roy and I believed that the body of knowledge had to be defined before any specific recommendations about curriculum were offered. We stayed away from specific recommendations about the content of an educational program for accountants, a privilege jealously guarded by the academic world. Instead, we stressed some general educational objectives that should be considered when planning a curriculum.

A recurring theme of *Horizons* was the emphasis on the intangible qualities that comprise what is known as “professionalism”—something which we cannot define, but without which any description of a profession would be absolutely inadequate. Breadth of education was one of the objectives we stressed because it facilitates adapta-

*ED. NOTE: Subsequent to this presentation, Council of the AICPA, on May 6, 1969, adopted the recommendations included in the report of the committee on education and experience requirements for CPAs, which included the statement that *Horizons* is authoritative for the purpose of delineating the common body of knowledge to be possessed by those about to begin their professional careers as CPAs.

bility to change that will most certainly continue to occur.

Another objective stressed is the interrelationship of subjects. The situation in which one course actually draws upon another has become increasingly important. Also emphasized is the exposure of the student to conceptual knowledge as well as procedural knowledge. We want students to learn not only *how* to do something, but *why* they are doing it this way, and what the basic ideas underlying their actions are. We also stressed the need for graduate study to enable an accounting student to be exposed to a wider and broader knowledge.

AICPA Responds to Horizons Report

After the study had been completed, the Institute sponsored 55 regional seminars for college and university professors. The purpose of these seminars was to discuss the content of *Horizons for a Profession* and its possible impact on curriculum. We wanted, moreover, to find out what the academic world thought about the study. Because many of the participants in these seminars wanted specific guidance in the area of curriculum, the Institute's committee on education and experience requirements for CPAs was established. The resulting paper, entitled "Academic Preparation for Professional Accounting Careers," is the committee's response to the requests expressed at the AICPA seminars.

Described in the paper is a five-year program which emphasizes the need for education beyond the baccalaureate degree. It is important to emphasize that we do not want to develop a five-year program, the result of which is only a baccalaureate degree; this is not going to attract people to the profession. We believe that this kind of program must involve a master's degree.

The paper, intended only as a guide, spells out a model program. It does not say, for example, that the student should have a certain number of hours in communication. It does, however, spell out ranges of courses in terms of semester hours. These numbers should be used only as a guide and not as magic numbers that must be followed. The content of courses, not the semester hours, is what is important.

The model education program is divided into three parts: general education, general business education, and accounting education. Accounting, of course, is really a part of business education,

but in the context of our study it is a major consideration and, therefore, described separately.

Recommendation No. 1: General Education

The general education recommendation covers about 40 per cent of the five-year program. In terms of semester hours, a five-year program would be approximately 150 hours. Since the present four-year curriculum in most colleges consists of about 120 hours, the 60 hours proposed for general education courses is consistent with today's breakdown between business and liberal arts subjects.

General education, of course, cannot be prescribed. How much psychology or English a student ought to have is a question that should be determined by the institution or very possibly the student himself. But we can talk about several areas within the general education category.

The first area is communication. One of the results of the common body of knowledge study (I am referring to the card-deck experiment) shows that, in the opinion of the majority of CPAs, communication was the most important subject. Two other important areas of general education are behavioral science, which is becoming a larger part of the curriculum in many colleges, and economics. A fourth area is mathematics. The committee strongly recommended that this part of the accountant's education be expanded to keep up with the increased use of mathematics in the solution of business problems.

Also included as a part of general education were two areas that might not ordinarily be thought of as part of a general program. They are the computer and accounting. The impact of the computer has been such that it is hard to imagine that anyone's education, irrespective of his field, is complete without some idea of what a computer is doing in today's world.

Accounting is a subject that really should be everybody's concern, since I am personally convinced that few people know what a CPA does. I think that we should design accounting courses for the general curriculum that would be available to all students. I, myself had some experience in this area when I helped to start an elementary accounting course at the Fordham University College of Pharmacy because somebody thought it was important that pharmacists have some background in record-keeping and taxes. From this

grew a much more meaningful course that developed the whole concept of accounting and measurement for students who were not business majors. Most persons are abysmally ignorant of the concept of the measurement of income. Despite the tremendous impact it has in our economy, many well-educated persons have no idea of what income means. I think that there is something very wrong when such ignorance exists.

One thing that is quite important is that the elementary course in accounting, whether it be for business majors or non-business majors, should be taught by the best accounting teacher in the university. The first exposure to accounting is very important because it might determine whether a student elects accounting as a career. It may also create—for a future businessman—a lasting impression about accounting.

Recommendation No. 2: Business Education

The second major area of the model education program discussed in the paper is that of general business education. This would include business law, production, marketing, and finance. The paper also describes a subject called "social environment," which would include such topics as urban problems, poverty, and race relations. These topics are part of the business environment and ought to be discussed in an enlightened business curriculum.

Organization and personnel should also be covered in any adequate business curriculum. Courses in written communication and the type of mathematics which will be needed to solve problems arising in business situations should also be available.

An integrated course in which elements of business are dealt with is often called the business policy course. This course is a vehicle for coordinating the things that might otherwise remain compartmentalized; that is, it integrates various subjects in order to solve business problems. The student becomes familiar with the various situations he will encounter in the business world and has a chance to apply what he has learned.

Recommendation No. 3: Accounting Education

The third major part of the model education program is the area of accounting. This should include a course on contemporary ac-

counting problems which will deal with the issues of the present day—the kind of things that the Accounting Principles Board argues about.

In the cost accounting field, the student should first be exposed to the basic concepts, definitions, and terminology. The second area that he should be familiar with in the cost accounting category is control. The computer notwithstanding, this is one of the most important aspects of accounting and an extremely important part of any curriculum. Cost accounting's contribution to decision making is another important area. Taxes, theory of taxes, problems of taxes, auditing problems, information systems, and theory and philosophy are also important areas of accounting practice.

Five-Year Program

The paper recommends a five-year program—one year more than presently required for the bachelor's degree. One of the mistakes that another profession made was to require a five-year program at the end of which a student receives a bachelor's degree. As a result of this requirement, the enrollment in the schools of this profession have declined steadily, and several schools, in fact, have had to close. The five-year bachelor's degree requirement was not the only reason for the enrollment decline, but it was a contributing factor.

I firmly believe that accounting is a discipline that should include work at the graduate level. The extension of the educational requirement from a bachelor's degree to a graduate degree would take place over a period of years. A reasonable target date might be 1975. It would take a while to effect this change, not only in state legislatures, but in colleges and universities as well. Most of our faculty members are not products of this kind of educational program. It is natural, therefore, that there might be some resistance from them to these changes.

During the transitional period, the paper recommends a four-year educational program with a requirement of one year's experience. A five-year program would have no qualifying experience requirement. When the five-year program is completely implemented, it is recommended that the experience requirement be eliminated.

It must again be emphasized that the number of hours a CPA candidate takes in a subject is not as important as the content of the course he takes. What may look like the same course in a college

catalogue is not the same course year after year in most institutions. The content of courses changes continually even when the curriculum does not change. One of the things we pointed out in *Horizons for a Profession* is that, although a course may look unchanged in a catalogue, new editions and changes in the textbook have already substantially altered the content of accounting courses. As an example, after the Ford report, there was great emphasis on managerial accounting and managerial economics. Today, much of managerial economics is covered under capital budgeting. There is hardly an introductory accounting text today that does not have something about capital budgeting. In this area alone, things have changed quite substantially.

"Think in Accounting"

The paper is intended as a guide to planners of college curricula. It is not meant to become part of a statute or the regulations. What is useful today as a guide may not be adequate tomorrow. We firmly believe that the university should be the vehicle for changing and revising the details of an educational program for CPA candidates. To include educational requirements in great detail in statutes or regulations would really undermine the purpose of this academic paper.

In *Horizons* there was emphasis, as there is in this paper, on the conceptual approach. We teach a lot about methods of doing things without stressing the underlying ideas and functions. But it would be very difficult to motivate people by giving them only concepts without relating them to the world around us. If I had to capsule this aspect of our recommendations, I would call it "concepts in context." I think we can get qualified, motivated people into our profession if our educational program is designed to stress concepts.

Some years ago, I received the supreme compliment from a student in my contemporary accounting course. He told me, after the course was completed, that I had taught him to "think in accounting." This is what we are trying to do in accounting education—to teach future CPAs to "think in accounting."

The Experience Requirement for the CPA Certificate

William P. Hutchison, Member, AICPA Committee on Education and Experience Requirements for CPAs; Former Chairman, AICPA Committee on State Legislation

STANDARDS FOR ADMISSION to the CPA profession can be categorized as the three "E's": education, examination, and experience. James MacNeill (see p. 26) discussed the first "E" in terms of the need for upgrading the *educational* requirements for the CPA certificate. The second "E" is the CPA *examination*. An Institute committee is studying the content of the Uniform CPA Examination to be sure that it is a fair measure of competence for persons entering the profession. The third "E"—the *experience* requirement—is necessary in most states to obtain the CPA certificate.

This is a subject on which the members of the profession have strong and varied feelings. Some CPAs say that an experience requirement is necessary regardless of the nature of the educational requirements. Others believe that the experience requirement is outmoded and should be eliminated.

The profession has found it very difficult to define the experience requirement and state boards have even greater difficulty in evaluating it. There are great differences among the levels and types of experience considered acceptable in various states. With this in mind, I would like to explore with you the various aspects of the experience requirement and try to relate it to today's needs.

I am sure that you are all aware of our profession's English heritage. At the turn of the century, an aspiring chartered accountant

in Great Britain was admitted to the profession under a system of articulated clerkships. While he was required to take certain examinations and some educational courses, primarily of the correspondence type, a major part of his training consisted of working under close supervision in an accounting firm.

This concept of professional training was carried over to the United States in a modified form. In 1916, an accounting bill recommended by the American Association of Public Accountants provided for a five-year experience requirement. There were strong reasons for having a lengthy experience requirement at that time. There were few colleges, and fewer still that taught accounting and related subjects. Textbooks on accounting subjects were also scarce.

Today, most states still have an experience requirement, which varies from one to three years. This requirement may be traced back to the articulated clerkship days in Great Britain and the early emphasis on accounting experience in this country.

Commission on Standards

Let us review briefly AICPA policy on the experience requirement. In 1956, the Commission on Standards for Education and Experience for CPAs completed a comprehensive study and made recommendations on the experience requirement. Briefly, the Commission recommended that CPA candidates complete, as a minimum, both a four-year college program leading to a baccalaureate degree and two years of experience. The importance of additional education beyond the baccalaureate degree was also recognized. The Commission also said that it did not believe there was much likelihood that a young CPA would undertake a complicated accounting engagement without seeking the supervision and counsel of more experienced practitioners. In summary, the Commission envisioned that formal education could be made so effective as to constitute the principal method of preparation for a CPA career. This recommendation to ultimately eliminate the experience requirement aroused strong dissent.

The Bailey Committee

Three years later, in 1959, another special Institute committee, called the Bailey committee after its chairman, the late George D.

Bailey, was assigned to study and update the report of the Commission. Several recommendations of the Bailey committee were adopted by the Institute's Council. The committee recommended that the experience requirement be retained and that a candidate with a baccalaureate degree have a minimum of two years' qualifying experience. A CPA candidate with a higher degree need have only one year's accounting experience. In the committee's view, accounting experience should be received under the supervision of a CPA, and most of this experience should be in the area of third-party reliance. The Bailey committee also recommended that the Institute prepare a statement which would define, in a general way, acceptable experience for the CPA certificate.

The Hansen Committee

In 1961, the committee on qualifying experience (the Hansen committee) was established to define the kind of acceptable experience and technical competence that it thought necessary for CPAs. It concluded that one year's experience should be the minimum experience acceptable for the CPA certificate but indicated that there were many problems for state boards of accountancy in *evaluating* experience. After much debate, Council tabled the committee's report because it was unable to reconcile the proper relationship between the education and experience requirements.

The Beamer Committee

After 1961, not much happened until the Institute appointed the committee on education and experience requirements for CPAs (Beamer committee). This committee, on which I served as a member, has not had an easy time coming to grips with the question of what kind of qualifying experience, if any, should be required for the CPA certificate. Basically, the committee recommended ten resolutions for adoption as Institute policies.*

1. The CPA certificate is evidence of basic competence of professional quality in the discipline of accounting. This basic competence is demonstrated by acquiring the body of knowledge common to the

*ED. NOTE: These resolutions were adopted by the AICPA Council on May 6, 1969.

accounting profession and by passing the CPA examination.

2. *Horizons for a Profession* is authoritative for the purpose of delineating the common body of knowledge to be possessed by those about to begin their professional careers as CPAs.

3. At least five years of college study are needed to obtain the common body of knowledge for CPAs and should be the education requirement. For those who meet this standard, no qualifying experience should be required.

4. The states should adopt this five-year requirement by 1975. Until it becomes effective, a transitional alternative is four years of college study and one year of qualifying experience.

5. The college study should be in programs comparable to those described in "Academic Preparation for Professional Accounting Careers." The transitional qualifying experience should be in public practice or equivalent experience in industry, government, or college teaching acceptable to state boards of accountancy.

6. Candidates should be encouraged to take the CPA examination as soon as they have fulfilled educational requirements and as close to their college graduation dates as possible. For those graduating in June, this may involve taking the May examination on a provisional basis.

7. Student internships are desirable and are encouraged as part of the educational program.

8. The "Report of the Standing Committee on Accounting Education," which provides that the accreditation of academic programs is the responsibility of the academic community, is endorsed.

9. Educational programs must be flexible and adaptive and this is best achieved by entrusting their specific content to the academic community; however, the knowledge to be acquired and abilities to be developed through formal education for professional accounting are proper and continuing concerns of the AICPA.

10. The AICPA should review periodically the standards of admission requirements for CPAs.

Need for a New Professional Image

Regardless of how you feel about the CPA's need for public relations, the experience requirement raises several problems in this area.

In earlier years, the experience requirement was often comparable to a period of apprenticeship whereby a candidate became a captive in our employment market. This was the impression created by requiring a CPA candidate to spend two years in an accounting firm. This often included long hours and low wages, with very little attention or concern directed to his future career. In those days, because candidates worked part-time, it often took three or four years to fulfill the two-year experience requirement. As soon as the two-year requirement was met, the young man often moved on to government, private industry, or some better employment opportunity.

While those days are gone forever, we are still paying the price for the abuses of this system of professional training. Some of our present recruiting problems can be traced to this poor professional image. I am not too sure that we have completely eliminated all aspects of this heritage from our training programs.

If you go to college campuses for recruiting interviews, you will find that there is a degree of resistance to the experience requirement, particularly since few other professions have retained such a requirement. Whether you are aware of it or not, there is also a lack of faculty cooperation in attracting students to the profession because, in most jurisdictions, college teaching is not recognized as meeting the experience requirement.

Today, an increasing number of accountants are not in public accounting. Some of these accountants have their CPA certificates; but others do not, because while they may have passed the CPA exam, they have not had the time to obtain two years of public accounting experience. Let us not delude ourselves in thinking that faculty members, career counselors, and others who help young people make career decisions are overly enthusiastic about the experience requirement.

Evaluation of Experience Requirement

A major problem with the experience requirement is its evaluation by state boards of accountancy. From a practical viewpoint, it is difficult or almost impossible to measure and evaluate the content of accounting experience. As previously indicated, the problem becomes even more cumbersome since experience varies from state

to state and from firm to firm. These examples are typical:

1. A young man works for a small firm where he is principally exposed to write-up work, preparation of individual tax returns, and maybe an occasional audit.

2. Another man works with a large firm where he is limited to cash counts, inventory counts, footings, confirmation of receivables, and other procedural matters.

3. A lucky man will work for a firm where he gets deeply involved in auditing, preparation of audit programs, application of APB and AICPA pronouncements, the drafting of financial statements, and the writing of footnotes. He also receives exposure to professional ethics.

As you can see, the type, the scope, and the content of the experience are more important than the specific number of years required by each state law.

Our committee received a very interesting letter from a thoughtful CPA in New York who recommended the elimination of the experience requirement. To quote him: "Some of the opponents of my view do not distinguish between the value of experience—about which there is no question—and the value of an experience requirement. In spite of all the efforts of the New York board to evaluate the nature, quality, and diversity of experience before accepting it, I have reached the conclusion that it is not possible to ascertain which candidates have had acceptable experience."

This sage observation identifies the problem which we are encountering. We often measure experience in terms of length and whether it is public practice, government service, industry, or college teaching, rather than by its quality, value, and content.

Consider what is happening in various states. In states where there is no experience requirement, CPAs indicate that they have had few or no problems. Presently, 40 states accept accounting experience received in the employment of federal agencies as qualifying experience for the certificate. Twenty-seven of the 40 states grant full credit for government experience. Thirteen states recognize government experience on a partial credit basis. There are trends in the remaining states toward the recognition of several accounting experiences such as that received in government service, college teaching, and even in private industry. Realistically this trend can never be reversed.

It is difficult to evaluate government accounting experience. Since the Institute has no realistic guidelines for the recognition of government experience, it is a problem for boards of accountancy to make decisions on the *quality* of this type of experience.

Substitutes for Experience

Another aspect of the experience requirement that concerned our committee was how to enable CPA candidates to reach a certain level of technical capability that we recognize is best gained from practical experience. We know that everything cannot be taught through expansion of the educational requirement. For example:

1. Professional responsibility is difficult to teach in a classroom. This is also true for the understanding and application of rules of professional conduct, ethics, and independence.
2. Technical competence can be initially taught in a classroom but, certainly, it is sharpened by the knowledge attained through practical on-the-job experience.
3. Administrative ability is best acquired by observing firm policies and daily procedures in a successful accounting office.

Our committee believes that by expanding internship programs, by sharpening educational courses, and by adapting the CPA examination these needed qualities can be attained to a greater degree than is the case now.

A comforting statistic is that the average candidate presently takes the CPA exam at least 2.5 times before he successfully passes it. Any candidate sitting more than twice for this examination, therefore, has usually received at least one year of experience. Any candidate who passes the examination the first time is generally of such caliber and intelligence that his lack of experience will not cause him to be a discredit to the profession.

Effect of Experience on Violations

The last area that I would like to explore with you is that of the CPAs who *do* violate accounting standards. In serving on the Oregon State Board of Accountancy, I have had some exposure to the areas in which violations occur. In addition, I have talked to CPAs from other states and I have been aware of the violations investigated by the Trial Board of the Institute. Seldom do young CPAs come before

any of these bodies for violations concerned with substandard work. Generally, violations involving substandard work concern someone who has been practicing from ten to 25 years.

There are practitioners who, although they have been practicing for 20 years, do not really have 20 years of experience—they have one year of experience repeated 20 times. These CPAs do not take continuing-education programs and do not keep up-to-date on APB bulletins and changes in tax laws.

While many of the violations have been committed by this type of practitioner, I would be remiss in not mentioning the lawsuits against many respected accounting firms. The alleged violations in most of these lawsuits do revolve around standards of performance, reporting problems, and ethical considerations.

Meaning of the CPA Certificate

As we revise education and experience requirements for the profession, we should reconsider the meaning of the CPA certificate. As the trend continues toward recognizing experience in industry, government service, and teaching, and as more and more CPAs do not practice public accounting, there is a need to redefine the meaning of the CPA certificate. The meaning recommended by the committee on education and experience requirements for CPAs is “evidence of basic competence of professional quality in the discipline of accounting” (as demonstrated by passing the CPA exam).

The professional characteristics that the holder of a CPA certificate should possess must be recognized as we define the updated meaning of the certificate. They are:

1. The CPA possesses a body of specialized knowledge.
2. He meets standard qualifications governing admission to the profession and formal recognition of status.
3. He imposes upon himself standards of conduct governing his professional relationships with clients, colleagues and the public, as well as acceptance of the responsibilities inherent in an occupation endowed with the public interest.
4. He assumes full responsibility for the rendering of his services at a professional level.

The time has come for the profession to update the meaning of the CPA certificate and to recognize the broadening aspects that

can take place in expanding the use and privilege of the attest function.

I hope that in reviewing the many aspects of the experience requirement I have placed the subject in perspective for objective consideration by a most volatile, growing, and forward-looking profession.

Opportunities for Accounting Regulatory Legislation

Philip R. Stansbury, Legal Counsel, AICPA

MY PURPOSE TODAY is to review the fundamental constitutional problems involved in attempts to regulate and limit the practice of accountancy by unlicensed persons. I would also like to report on some legislative proposals in this area, which are now under study by the American Institute, particularly its committee on state legislation. By this means, I hope to stimulate your thinking about legislative opportunities which are still available in light of the many reported court decisions concerning the regulation of accounting practice.

Unfavorable Court Decisions

The reported court decisions in this field, particularly in the last few years, are both confusing and generally unfavorable to accountancy regulation. In general, the court opinions have shown little comprehension of the quality of technical competence, judgment, and integrity that is required in accounting practice, and thus little comprehension of the strong public interest in the regulation of such practice. It is evident from their opinions that many judges, like much of the educated public, have failed to grasp the fact that accounting involves more than technical bookkeeping. Thus they have regarded attempts to regulate and limit practice by unlicensed persons as nothing more than an attempt by a privileged group to limit competition by outsiders.

There is always one basic question which must be discussed when considering the regulation of an occupation—is the public interest sufficient to justify what is otherwise a limitation on the right of people to pursue their own livelihoods? This and the general lack of comprehension of the nature of accounting practice are the two factors in the unfavorable reception of accountancy regulatory legislation in the courts.

Nevertheless, a number of important opportunities for regulation of accounting practice may still be strongly defended, even if all the unfavorable decisions are accepted as the final word. It must be emphasized that this is an area of the law where state constitutions as interpreted by the state courts are likely to pose much more of a problem than the federal constitution. Accordingly, everything I say is subject to qualification, insofar as each individual state is concerned, by factors which I may not know about. For specific advice you should consult your own legal counsel and attorney-general.

Areas Closed to Legislation

Following are some illustrations of the kind of regulations which the reported decisions foreclose.

Tax Returns. It appears certain that neither state legislatures nor state boards of accountancy can prohibit unlicensed persons from preparing federal tax returns; the same probably holds true for any local returns. Courts have indicated that they simply do not see a public interest sufficient to support such restriction on the right of individual taxpayers to contract for the services of whomever they choose for the performance of routine tax work in preparing returns. There is also, of course, the problem that in a great many states there is simply an absence of enough qualified people. The matter of the preparation of federal tax returns and representation before the Internal Revenue Service is probably governed by federal law and by Treasury regulation, so state statutes or state board regulations probably could not effectively interfere.

“Bookkeeping” Services. It also seems clear from the reported decisions that the courts will not countenance an attempt to prohibit unlicensed persons from performing ordinary write-up work or bookkeeping services. In my judgment, this clearly extends to write-up work performed with data-processing equipment, whether

done by unlicensed practitioners, by banks, or by other data processing centers.

Unaudited Statements. Under the existing decisions, it is probably not worthwhile to try to restrict the practice of preparing or assisting in the preparation of unaudited financial statements which are designed by the client to provide an unaudited but otherwise fair presentation of financial information in conformity with generally accepted accounting principles. Although this is much more than bookkeeping, and such work *does* involve a high degree of technical competence and an exercise of judgment, it is unlikely, in light of the precedents, that judges will choose to draw a distinction between any kind of accounting work in connection with unaudited statements and ordinary mechanical posting of books.

Management Services. Although I am not aware of any court decisions regulating the practice of accountancy in the area of management services, it seems very likely that any attempt to restrict management services practice or any portion of it to CPAs or to any other professional groups in our society would meet a very bad reception in the courts.

Use of Term "Accountant." As a result of decisions within the past few years, there is doubt as to whether the accounting profession can successfully prevent unlicensed practitioners who restrict their practice to tax work, write-up work, unaudited statements, and management services from describing themselves as accountants or from describing their services as accounting services. Two decisions which point in this direction are *George W. Dandelake et al. vs. Florida Accountants Association et al.*, January 1957, and *Welch Accounting Service vs. Walby*, November 1965.

Areas Open to Legislation

What, then, is left open to state regulation which is supportable under all the decisions?

Attest Function. It still should be possible to forbid unlicensed and unregulated practitioners from expressing opinions on financial statements or in any other way exercising what is commonly called the attest function in the capacity of an accountant or auditor or person in any way claiming expertise in accounting or auditing.

There are no court decisions which actually hold this, but I am sure that this can be defended because of the obvious public interest in the exercise of the attest function.

Disclaimers. There is still room for argument if you believe that the legislature should not only prevent unlicensed persons who claim expertise in accounting or auditing from expressing opinions, but should also require them to disclaim opinions if their names are associated, in any manner, with financial statements and any wording indicating expertise in accounting or auditing. This latter requirement is something which, as far as we know, has not been tried anywhere.

Definition of "Accountant." It seems clear that any person who assumes the title of certified public accountant, or a confusingly similar title, must meet certain education, examination, and experience requirements and may be subjected to disciplinary control. This is all that the permissive CPA statutes attempt to do. Unfortunately, there are court decisions which will make it difficult or impossible to prevent unlicensed practitioners from calling themselves "accountants" although such title is confusingly similar to "certified public accountant."

Such decisions have not foreclosed the opportunity of legislators to require unlicensed persons to make it clear that they are unlicensed. In the *Dandelake* decision in Florida, which took the position that unlicensed persons can call themselves accountants, there was a suggestion at the end of the opinion that the Florida state board could require the Florida Accountants Association to add a legend that it was not licensed by the state board of accountancy.

Proposals Under Consideration by the AICPA

Attest Function. First, it would appear from the reported decisions that state legislatures and boards can restrict the expression of opinions on financial statements and other exercises of the attest function to licensed persons. This is the clearest instance of a public interest in preventing misplaced third-party reliance upon the representations of unqualified persons.

The definition of the area of accounting practice, restricted by Section 15 of the Form of Regulatory Public Accountancy Bill in its present language, is thought by the committee on state legislation

to be open to some improvement. The present concept of the Bill is that no unlicensed person shall sign his name, with any language indicating in any way expertise in accounting or auditing, to any accounting or financial statement or to any opinion on, report on, or certificate to any accounting or financial statement. The committee has concluded that the Form Bill's definition of the attest function in the language of Section 15, which I have just paraphrased, may, in view of the continuing development of accounting practice, be much too narrow. For example, what happens if an unlicensed person should certify as an accountant to costs under a contract or to any other stated facts in regard to a grant or a contract?

It is possible that a court would consider that the words "accounting" or "financial statement" cover such other exercises of the attest function. On the other hand, a court might place a narrow historical interpretation upon the phrases "accounting" or "financial statement" and hold that a statute modeled on the Form Bill does not prohibit exercise of the attest function by unlicensed persons except in the area of traditional statements of financial position or results of operations.

For this reason, the American Institute now has under consideration an amendment to Section 15 proposed by the committee on state legislation which would generally preclude any person other than a licensed public accountant or certified public accountant from signing, as an expert in accounting or auditing, "any opinion or certificate attesting in any way to the reliability of any representation in regard to any person or organization embracing (1) financial information or (2) facts respecting compliance with conditions established by law or contract, including but not limited to statutes, ordinances, regulations, grants, loans and appropriations."

The proposed statement would substantially broaden the type of attestation which is clearly restricted to CPAs. It would cover attestations embracing any financial information, regardless of form, and attestations by persons representing themselves to be skilled in accounting or auditing concerning the reliability of other factual representations as well. The point of this broad language is that an unlicensed person is forbidden to express opinions on such facts *as an accountant*. This proposal is designed to bring the regulated area of accounting practice in line with present realities, and we think that most courts would recognize it as constitutionally valid.

It serves the same public interest as the present narrower restriction and, possibly, serves it better.

Disclaimers. The American Institute's committee on state legislation has also proposed an amendment to the Form Bill requiring that an unlicensed practitioner disclaim an opinion whenever he signs his name to a financial statement with any wording indicating expertise in accounting or auditing. This is, as far as we know, a fairly new idea.

A recent statement of the Institute's committee on auditing procedure concerning unaudited statements requires that Institute members who are associated with unaudited statements accompany them with an appropriate disclaimer of opinion. It is not unlikely that in the near future the applicable codes of ethics of both state societies and many state boards will require that all CPAs disclaim an opinion whenever they are associated with unaudited financial statements. It would be an anomaly indeed if the restriction did not reach unlicensed persons as well; yet the ethical regulatory bodies, since they are generally authorized to regulate only CPAs and grandfather PAs, probably would not reach the unlicensed practitioner. It could be argued that relatively little credibility attaches to unaudited statements accompanied by the signature of an unlicensed practitioner, but, of course, this presupposes a greater sophistication on the part of the public than it is likely to have.

In summary, the three areas of regulation of unlicensed practitioners which still show promise in the face of all the court decisions are: the broadly conceived restriction on the attest function; a requirement that unlicensed practitioners prominently disclose, in their cards, letterheads, doors, and so forth, that they are unlicensed; and a requirement that unlicensed practitioners disclaim opinions when their names are associated with financial statements.

Need for a New Image

In closing, I'd like to return to the point with which I began: that opinions and court cases dealing with the constitutional aspects of accountancy regulatory legislation show amazingly little understanding of the competence and judgment required in the practice of accountancy. There is nothing surprising or sinister about this. The judge's comprehension of accounting practice is certainly no

worse than that of the educated general public that has some contact with the profession. Keeping in mind what many people think accounting is, consider how you would regard an attempt to restrict the practice to licensed persons.

For instance, many people instinctively think of auditing simply as a matter of confirming all transactions. Even most people who understand the general nature of an audit and realize that this statement is false still think that there is some clear, simple, and mechanical method of deciding which transactions and events need to be confirmed and which do not.

Many more people think that the preparation or review of financial statements, apart from the auditing aspect of it, involves nothing more in principle than reconciling a personal bank account. My impression, from reading the opinions, is that many of the judges thought accounting simply consisted of adding up the debits and credits and finding out what has been left out if they don't balance. Even if they grasp the fact that financial statements on an accrual basis involve judgments as to the time of recognition of transactions, the selection of description methods, and the like, most people think that accounting judgments can be made on the basis of very simple rules mechanically applied.

Very few persons outside the accounting profession understand that a balance sheet or income statement is a summary which has to leave out a great deal of information in order to be comprehensible and usable and that selecting the amount of information to be disclosed for a fair presentation may involve a delicate exercise of judgment. Most people think that the simple solution to all disclosure problems is simply to disclose more.

It seems inevitable that the regulation of accounting practice by unlicensed persons will continue to fare rather badly in the courts until the accounting profession or somebody succeeds in doing a more effective job of explaining the nature of accounting practice to the courts and especially to attorneys. Some highly sophisticated lawyers, even those in antitrust practice who deal with economic issues all the time, have no better comprehension of accounting practice than that which I have just described. In preparing his defense of accountancy regulation from a constitutional standpoint, a lawyer needs the best help available from the accounting profession for, at most, he is defending a practice with which he is basically unfamiliar.

Effects of Proposed Changes in the Uniform Public Accountancy Bill

Bernard S. Kubale, Legal Counsel for the Wisconsin Society of CPAs

Unfortunately, *Welch Accounting Service vs. Walby* came to the attention of most CPAs and of the Wisconsin society after the decision had been handed down by the Wisconsin Supreme Court. If we had known about it in advance, we might not be here talking about it today. But it was litigated without the knowledge of the Wisconsin society.

While in the past the courts have not treated the accounting profession especially well, I think this is an ideal time to be talking about strengthening and enforcing accounting laws. There have been unfavorable decisions in Wisconsin and Tennessee, but recent cases involving accountants' liability, such as the *Bar-Chris* case, show that the courts are aware that accountants have an important responsibility to the public, to investors, and to bankers. This growing judicial awareness of the profession's responsibilities also brings with it an awareness of professional standards. In the *Bar-Chris* case, the court was very critical of the accountants for not following certain procedures in verifying accounts. This awareness of the profession and its standards may find the courts much more sympathetic to the regulation of the practice of public accounting in order to protect investors, lenders, and the public in general.

I agree with Philip Stansbury [see p. 42] that the courts need to be educated, and I think that the trend in recent cases is such that we now have a real opportunity to do so. I think the profession will

probably find more sympathizers now than it would have found several years ago.

Phil has covered the proposed changes in the Form Bill very thoroughly. I'd like to give you my comments on them.

Attest Clause

The principal change is in the so-called attest clause. The proposal would provide that an unlicensed person could not sign, with any wording indicating he is an accountant or has expert knowledge in accounting, an opinion or certificate attesting in any way to the reliability of any representation embracing financial information or facts respecting compliance with conditions established by law or contract. I foresee several problems, which I am sure have already been considered by the committee, but let me raise them here.

First, as I read the proposed change, an unlicensed accountant could still express an opinion if he just signed his name, without anything more, because the proposal appears to apply only if he signs with wording indicating he is an accountant or has expert knowledge in accounting. Therefore, it would seem that, if someone gave an opinion and just signed his name, "Homer Blow & Associates," this would not be a violation of the attest restriction. He could say anything he wanted to in the opinion. He could say, "I examined the books and records of such and such a company and, in my opinion, the statement is accurate." I question whether doing that, and then just signing his name, would be wording indicating he is an accountant or has expert knowledge in accounting.

What I am suggesting is that the Form Bill should provide that *all* opinions regarding financial information be restricted to licensed accountants. Why should it be only those opinions which refer to the fact that the signer is an accountant or has expert knowledge in accounting? Why shouldn't any opinion or attestation regarding financial information be limited to a licensed accountant? I feel that, if under its police powers a state has a right to regulate attestations on financial statements, that power should be sufficient to regulate *any* attestation, whether or not the person indicates that he is an accountant or has expertise in accounting.

The second problem I have with the restriction on the use of the attest clause is its broadness. I suggest that the committee consider

making the restriction apply only to attestations regarding financial information, and not to attestations embracing facts respecting compliance with conditions established by law or contract. I think we might find a more sympathetic response from a court or from a legislature if the restriction refers to financial information exclusively rather than to "facts respecting compliance with conditions established by law or contract. . . ." That, I feel, would have the best chance of being approved by the legislature and upheld in court.

As far as Wisconsin is concerned, I feel that the proposed attest clause would be constitutional. I would not guarantee it and, in a lawyer-like fashion, would hedge my opinion, but I feel it would be worthwhile to try it in Wisconsin, and hopefully we will do so in the next session of the legislature.

Disclaimer of Opinion

The second general area of change proposed in the AICPA Form Bill is the requirement of a disclaimer of opinion or of the ability to render an opinion, which would apply where an unlicensed accountant uses a title to imply that he has expert knowledge in accounting. But why should the disclaimer be required only where the person says, "I am an expert accountant." Why shouldn't this disclaimer be required on any financial statement regardless of who signs it? If a person is going to prepare a financial statement and sign his name at the bottom, shouldn't he have to put the disclaimer after his name to make this prohibition meaningful? Under the proposed Form Bill language, if he doesn't imply he has expert knowledge, the disclaimer apparently is not required.

If the disclaimer is only going to be required when an unlicensed accountant expresses an opinion, as I think the Form Bill could be interpreted, then the attest clause provision alone is sufficient. If an unlicensed accountant cannot express an opinion, there is no need to say, "If you give an opinion, you have to disclaim." I think the disclaimer must apply to all financial statements if it is going to be meaningful.

The major problem I see with any disclaimer requirement is not legal, but practical. Can you go to your legislature and say, "Any person who signs a financial statement which is used for outside purposes has to say 'I am not licensed' "? I don't know. I think it

would be a matter of what your relationships are with your legislators, but I think it may pose some difficulties.

Disclaimer of Being Licensed

The next comment I have on the proposed bill regards the change which requires a disclaimer of being licensed any time a person calls himself an accountant or auditor. I think such a disclaimer would probably be constitutional; in fact, this was suggested by the Florida Court in the *Dandelake* decision. However, I have reservations about being able to go to your legislatures to ask them to require that any time anybody says he is an accountant or auditor, he also has to indicate that he is unlicensed. This is a matter in which each state society must appraise its own political situation.

Grandfather Clause

The fourth comment I have on the proposed bill concerns not what is there, but what is not there—a grandfather clause. Currently it is not contemplated by the AICPA that, in amending the prohibitions in an existing regulatory law, it would be necessary to reopen licensing on a grandfather basis. Is such a clause necessary? I know from speaking to several of you here that you think so, and maybe in your own states it is. However, I am not sure.

Historically, when CPA statutes became regulatory, there was a class of non-licensed accountants who were allowed to continue expressing opinions and performing other accounting services. They are gradually fading out in most states. However, it seems to me that if regulation of the attest function is within the police powers of the state, you should be able to eliminate the right of unlicensed accountants to attest. If it is in the interest of the public that only CPAs attest, the fact that Joe Blow is attesting now should not be a controlling factor in your being able to eliminate him as a person qualified to attest in the future.

Contrary arguments can be made. Possibly there is a taking of property without due process of law. Also it could be argued that a contract is being impaired in that the unlicensed accountant has agreed with someone that he will review their financial statements and attest to them for \$1,000 a year. I think it depends upon the law in your own state. I would recommend that you talk to your

own counsel if you are considering legislation of this kind to decide whether or not you need a grandfather clause when expanding the regulation of the attest function.

In Wisconsin's case, I will continue, at least for the immediate future, to recommend that Wisconsin not include a grandfather clause which would say, "You can't attest, unless you are attesting on the date the new restriction becomes law." I think it waters down the law too much. Also, I would hate to license on a grandfather basis another large group of persons. In Wisconsin, we have public accountants who were licensed some years ago. We would have a terrible job deciding who is attesting now and what an attestation is. My own feeling is that I would rather gamble on jeopardizing the law than add any grandfather clause to the Institute bill.

Technician Class of Accountants

Another topic I would like to talk about is the creation of a technician class of accountants. What is a technician class? It is a class of accountants licensed on a continuing basis to render elementary accounting services. In addition to having a class of CPAs and a class of grandfather public accountants, you would have a third class of technicians. The states that have contemplated such legislation have called the technicians "accounting practitioners." As proposed, it is a type of regulatory law in that it attempts to restrict certain functions to the technicians.

Indiana has a bill which would create a class of accounting practitioners. In the Indiana bill, public accounting is a term which is defined very broadly, and it includes what an accounting practitioner would do. However, when it discusses the accounting practitioner and what his function is within the whole group of public accountants, it restricts him as follows: "No person registered and licensed as an accounting practitioner under this act shall prepare or render accounting opinions or certifications on financial statements, schedules, reports or exhibits. . . ." As you can see, the bill has created the accounting practitioner class, but it prohibits it from expressing opinions on financial statements. It is similar to the AICPA bill in that it restricts the attest function to CPAs or licensed public accountants.

What are the advantages and disadvantages of such legislation?

One advantage, which I suppose is fairly obvious, is that it limits

the services that accounting technicians can perform. Also, it regulates *all* persons rendering accounting services. It imposes some standards on what they can do because there is a board which regulates their activities. It might also help eliminate pressure for reducing educational requirements for taking the CPA exam.

What are the disadvantages?

One is that it gives accounting technicians some status and an excuse to organize to a higher degree than they may now be organized. Also, and this is what I feel to be the most serious disadvantage, it may be unconstitutional under the *Welch* case, the *Dandelake* case, and the Tennessee case of *Bookkeepers Business Service*. In Wisconsin, it seems very doubtful that all types of accounting services can be regulated. In Florida, I would reach somewhat the same conclusion. I believe there is a feeling in some courts that accounting and bookkeeping as such are not subject to regulation, apparently because bookkeeping is not deemed to be sufficiently in the public interest.

Let me read to you from the decision in the *Dandelake* case. "Restricting the rendering of routine accounting services infringes upon the right of contract in matters purely of private concern, bearing no perceptible relation to the general or public welfare." On the basis of this language, I have some serious reservations as to whether creating and regulating this third class would be accepted as constitutional.

I am not suggesting to the people of Indiana that the act is unconstitutional or that they should drop it. I merely say that, before any of you others consider it, it might be wise to discuss it with your counsel to make sure it has been considered in the light of your own constitution and your own court decisions.

Delegation of Authority to State Boards

I'd like to discuss briefly several other subjects. One is the delegation of authority by the legislature to the board of accountancy in such things as the standards of conduct for accountants and the requirements for admission. Mr. Shissler will discuss this in more detail. I will only suggest that the question of what authority can be delegated by the legislature to the board of accountancy is a matter of state law. In Wisconsin, after the *Welch* case, we thought perhaps we could have the board of accountancy do what our

Supreme Court would not do—that is, control unlicensed accountants. We discovered, however, that under our statute the board had authority to regulate licensed accountants, but not unlicensed accountants. Your own statutes and constitutions are very important in this area.

One practical problem that must be considered if you have a board of accountancy composed entirely of CPAs is whether the courts will be reluctant to give that board authority to regulate non-CPAs. It might appear that all you are doing is protecting your own interests.

Educational Requirements

One other item I want to discuss is educational requirements. In states with permissive accounting laws, educational requirements are not likely to be a problem from a constitutional standpoint. However, in states with regulatory accounting laws, it would seem to me that educational requirements pose constitutional problems. Where you have technician legislation restricting the performance of elementary accounting services, you may have a serious problem, particularly if requirements for licensing the technician class are too restrictive.

Outlook Favorable for New Legislation

In conclusion, I would like to repeat that I feel that it is a good time to go to your legislature and your courts because of the recent decisions on accountants' liability. I think these decisions have created an atmosphere in which CPAs can appeal to the legislatures and to the courts that the establishment of high standards to admit persons into the profession is consistent with the public interest.

I would also like to suggest that, before drafting a statute, you consult with the AICPA and your own legal counsel. It seems to me it is a serious mistake to go out and get in touch with all the members of your society, find out what they want, spend endless hours drafting a statute, and then call in your attorney, only to have him say "It's unconstitutional." I would suggest that you get in touch with your legal counsel as one of the first steps in drafting new or amended legislation.

Points to Remember When Drafting Accounting Legislation

Wilhelm E. Shissler, Legal Counsel for the Pennsylvania Institute of CPAs

Throughout my 29 years of service as legal counsel with the Pennsylvania Institute, I have worked very closely with the AICPA. We have always relied to a great extent upon the information furnished to us by the Institute and used it as a guide in our approach to legislative and other matters. It is for that reason that we constantly refer to the Form of Regulatory Public Accountancy Bill with which, I know, you are all familiar.

Form Bill to Be Used as Guide

I think it is significant that the Form Bill says, "This bill is not presented as a model bill, but as a guide." That is exactly what it is, and I think the two speakers who have preceded me have clearly indicated why, at best, it can be only a guide, as distinguished from a model bill that is presented to a legislature for adoption in the precise language therein provided. You have to recognize that differences exist between states, not only because of differences in constitutions and statutes, but also because of court decisions that have been rendered on accountancy laws or on other related statutes.

The other important thing that is said in the introduction of the Form Bill is that "state societies should engage legal counsel to insure that the Form Bill conforms to existing statutes." I am going

to discuss the desirability of having regular legal counsel to serve state societies.

Consider All Prior Decisions

Drafting of accountancy legislation can take two forms. First, you can prepare an entirely new act, repealing all prior acts. This is what we did in Pennsylvania when we passed our last statute. We repealed our prior laws and ended up with an entirely new law. Second, you can use the amendment process, amending the existing statutes and repealing only prior inconsistent provisions of the statutes.

In order to take either of these two approaches, you must be familiar with the state constitution, the state statutes, and the decisional law in the state. In most states, the accountancy statutes are rather short and simple. In Pennsylvania, we have been extremely fortunate not to have had any court decision that restricts us in the interpretation of our statute. Although we have had some court decisions on privileged communications, we have been singularly fortunate not to become involved in litigation concerning the basic aspects of accounting.

Also to be considered in drafting legislation are state statutes that deal with other professions. Most professional licensing statutes in Pennsylvania follow a pattern. You ought to examine, therefore, the statutes of the other professions and, likewise, the decisions of the courts as they relate to those statutes.

In Pennsylvania, some of the other professions have had repeated challenges to their statutes, and we have received some guidance from the decisions rendered in those cases.

Statutory Construction Act

Most states, including Pennsylvania, have one statute which should always be consulted—the Statutory Construction Act. Frequent reference must be made to that statute in the drafting of language. It covers a multitude of subjects. For example, it tells you that such words and phrases as have acquired a peculiar and appropriate meaning shall be so construed. The statute also covers matters of retroactive legislation. To know all the ramifications of a situation

in which a bill has a retroactive effect, you must be familiar with the Statutory Construction Act. It guides the interpretation of statutes—what should be construed strictly and what should be construed liberally.

As a practical matter, I had occasion to look at the Statutory Construction Act last week in my capacity as counsel for the Pennsylvania Institute. I was working, with the president and the executive director of the Institute, on a statute dealing with the attest function. One problem that came up was whether we should use the word “person” or “individual.” If you look at the Form Bill, you will find that the word “person” is used frequently. We found that under our statute the word “person” includes a corporation, partnership, and an association, as well as a natural person. This was not what we sought; therefore, we looked further and found that the word which defines a “natural person” is “individual.” This is the language which we ultimately used.

As I say, you will have to constantly make reference to the Statutory Construction Act in order to understand the interpretation which the court will place upon words you insert into your statute.

Knowledge of Accounting Principles and Objectives

It is very helpful if the person assisting in the drafting of the legislation is familiar with accountancy principles. Since I have been associated with CPAs for a long time, I myself have acquired some comprehension of the field of accountancy and the principles that are involved.

Similarly, when you are drafting legislation, you must know the general objectives of the profession. Sometimes that is difficult to ascertain, particularly in Pennsylvania, because we have diverse views. When drafting, you must always be conscious of the general objectives of your client and also of the relationship of the proposed legislation to the welfare of the general public.

In other words, the whole basis for an act is the fact that it must promote the public welfare; otherwise there would be no justification for the legislation. In the health area, it is quite easy to convince a court that the public welfare is involved. In the accountancy area, however, some of our courts have not been sufficiently convinced that the public interest is involved in regulating the practice of public accounting.

Unity Within the Profession

When considering the introduction of new legislation, you should be certain that you have unity within your profession, or at least a very high percentage of unity. Recently, in Pennsylvania, we were exploring the matter of regulatory legislation and asked the membership how they felt about it. We arbitrarily set the position that if two-thirds of the members supported the regulatory bill we would pursue it; if they did not, we would not. Although we had the support of more than 50 per cent, we did not get the necessary two-thirds approval and the regulatory bill is not being pursued at this time. Unless there is unity in the profession, those who oppose you will let it be known in the legislative halls that the profession is not unanimously behind the statute. As a practical matter, it is very difficult to get the legislation enacted under these circumstances.

As has been pointed out by prior speakers, it is necessary to ascertain the strength of those who may oppose you. In Pennsylvania this is done through our various society committees. In addition, you must also test the temper of the legislature, and this changes from time to time. Sometimes the profession is in favor with the courts, sometimes in disfavor. If it is an era of disfavor, it is wise to defer legislative action until a more propitious time.

Pitfalls to Avoid

If you are writing an entirely new act, there are some pitfalls to avoid. First, you must see that the bill contains all the necessary provisions to make it workable. There should be no inconsistencies within the bill. Prior statutes should be *expressly* repealed. This is something that legal counsel is able to take care of.

If, on the other hand, you are drafting an amendment, your responsibilities are even greater because you are either deleting or inserting words in an existing statute. If you are *deleting* a portion of a statute, you will want to be certain that, by the deletion of those words, you have not adversely affected the remaining portion. On the other hand, if you are inserting words, you must be certain that they are added at the proper place. This is important. If you are making an amendment, changes may have to be made in several sections of the statute.

I can give you an illustration of a very unfortunate placing of

words in an amendment that was passed in Pennsylvania. We were dealing with the portion of our statute on privileged communications (a subject very dear to my heart because of my strong feelings about a CPA's right to be accorded privileged communications when he is functioning as an adversary for his client). While the legislature was in session, an amendment to that particular section was presented and, after it was agreed upon, it was placed in the wrong section of the statute. As a result, we have had a series of court decisions which have said in effect, "You don't have privileged communications." We haven't sought to correct it because we have learned by experience that if you introduce a bill sometimes you get unwanted changes in other areas of the law.

Delegation of Legislative Power

A profession sometimes desires to establish its own rules of self-regulation and asks the legislature to delegate to a board, which the legislature has set up to control the profession, certain legislative functions. This is an area that presents some delicate problems. In Pennsylvania, our state constitution says that "the legislative power of this Commonwealth shall be vested in the General Assembly, which shall consist of a Senate and a House of Representatives." I am sure that the language of your state constitutions will be very similar.

There have been repeated challenges to the delegation of legislative power to regulatory boards. The legislature, for example, cannot delegate its power to make law, but it can delegate power to determine some fact upon which the law will operate. The Pennsylvania Courts have said that what is required for the proper delegation of duties is the establishment by the legislature of the norms and basic policy guidelines which the regulatory boards must follow. It has likewise been held that if the legislature fails to define with reasonable certainty the limits of the power delegated or if those limits are too broad its attempt to delegate authority is a nullity.

The Form Bill states that "the Board may promulgate and amend rules of professional conduct appropriate to establish and maintain a high standard of integrity and dignity in the profession of public accountancy." If you read that language in the light of our Pennsylvania decisions, you might have a serious question as to whether

you have properly set forth the norms and basic policy guidelines.

These are the things that your counsel must consider when he drafts a bill for your state. Challenges to the delegation of power to regulatory agencies do occur. In Pennsylvania, we have them constantly in certain of the professions. The undertakers, for example, have frequently raised questions about their statutes. Even the dentists have challenged their law.

A board can always ask the state attorney general for an opinion on a proposed action but it may be unwise to do so since it may be bound by such an opinion. When I was a neophyte on the board of accountancy, the board asked our attorney general whether we could increase our educational requirements to a college level. He said, "Oh, no, you can't establish any rules of any kind dealing with the qualifications to sit for examinations. The statute limits you to just three: namely, that the individual be a citizen of Pennsylvania, 21 years of age, and of good moral character." As a result, we had to pass a whole new act to overcome the opinion which we asked for and received.

One of the ideas which has come up during this meeting is statutory authorization for a state society to submit to the governor of the state a list of names from which he has to select board members; personally, I am fearful of that type of proposal. I understand that there are some states that have such a provision. In our discussion group yesterday we were told that Louisiana and Alabama have it. Oklahoma has it in a form which says that the Governor may, in his discretion, select nominees from a list presented to him. One state representative said that his society's counsel expressed some doubt about the constitutionality of such a provision; I think he has firm grounds for his reservation.

In the chiropractic field in Florida, a provision that the board members had to be selected from a panel submitted to the governor was declared unconstitutional. The Florida court said that the legislature could not "directly or indirectly, or under the guise of prescribing qualifications, limit or encroach upon the power of the governor to appoint officers to fill statutory offices by designating other authority to participate in selecting or in hampering the executive judgment in making selections for appointments." It is clear that one must be very careful about this kind of proposal.

Need for Counsel on Year-Round Basis

It is my feeling, therefore, after 29 years of experience in Pennsylvania, that every state society should have counsel serving them throughout the year. A familiarity with the objectives of the organization and with the accounting profession permits a lawyer to do a better job when the occasion arises.

Counsel's responsibilities are not limited; at least mine are not. I find that I assist frequently in matters involving ethical violations; I help at the time of hearings by trial boards. When trying to coordinate legal matters between the state board and the society, I also cooperate and consult with the AICPA. It has been my privilege to work with Philip Stansbury on very important matters, so that in the end we find that we are "going down the same road together" and are not in opposition to each other.

As counsel for the Pennsylvania Institute, I try to follow current legal decisions affecting accountants, accounting procedures, and accounting responsibilities. The accounting responsibilities today are tremendous, and juries are looking at the dollars in a way that is extremely harmful to the accountants. This was particularly true when we were considering malpractice insurance in Pennsylvania. Our society had made malpractice insurance available through an insurance carrier, and when we received a cancellation notice from the carrier, we had to find a new carrier. Actually we had to write our own policy in conjunction with the representatives of the new company.

These are just some practical ideas which you as members of state legislative committees should consider in the drafting of legislation.

Independent Auditors in State and Local Governments

E. Waldo Mauritz, CPA, Accounting Adviser, International Finance Corporation; Past President, Illinois Society of Certified Public Accountants; Member and Former Chairman, AICPA Committee on Governmental Accounting

IN REVIEWING THE proceedings of past legislative conferences, I note that you have dealt almost exclusively with regulating the profession and problems relating thereto. I would like to introduce another aspect of state legislation which affects public accountants—the use of independent auditors by state and local governments.

Although there are many governmental units where independent auditors are not employed on an annual basis, requirements for annual accountability have become increasingly important. Often such accountability is satisfied by a state auditor or public examiner. Public awareness of the need for governmental accountability and recognition of the value of independent audits have resulted in a substantial increase in the demand for annual audits by CPAs.

Historical Origins

Before commenting on the current requirements for independent audits of governmental units, it would be useful to refer to the historical origins of governmental accounting and accountability.

Some of you may have read the book *The Accountability and Audit of Governments*, by E. L. Normanton, who made an exhaustive study of this topic. It is quite interesting to note that, according to this book, there has been some type of requirement for accountability of public funds dating back so far that its origins are almost

lost in history. In his book, Mr. Normanton compares the various practices of governments. Most of his study is confined to the federal level. One of the interesting points brought out in the book is that there has been increasing emphasis, particularly in English history, on the audit and accountability of government funds. The requirements for such accountability were incorporated in English laws; hence it is not surprising that some similar requirements developed in the United States. It is from the common law that requirements for accountability of governmental funds came into state constitutions.

The theory of checks and balances, which is so much a part of our governmental structure, is also reflected in financial administration. Almost from the beginning of our republic, financial responsibilities were divided so that one officer received and held the money, one officer disbursed the funds, and one officer was charged with the responsibility of auditing the expenditures. This division of responsibility was not infrequently primitive and ineffective.

Improvement: A Slow Process

It took a long time for any worthwhile changes to occur. I believe that one reason for this has been the apathy of the public. While the public is greatly concerned about the impact of taxation, it is much less concerned about how its tax money is spent and how it is accounted for. Because of the lack of public concern, substantial improvement in accounting and auditing practices in state and local government has been a long process. This has also been true, of course, at the federal level.

Government employment practices also contributed to the low quality of accounting and auditing. This is still true today in jurisdictions that do not use a civil service system based on merit. In the past, employment in government was too often based on party affiliation rather than experience or ability. Frequent changes of the party in power brought with it a consequent turnover in government personnel.

When reforms were made, too often they came about after the discovery of financial irregularities or improprieties. Unfortunately, it often took a major scandal to force the introduction of an adequate accounting system and comprehensive requirements and regulations concerning the audit of public funds.

In the early part of this century, when the profession was just getting started, CPAs had little interest in governmental affairs. It was not until the profession had been in existence for many years that CPAs were brought into government for their special knowledge and skills.

The improvement in government accounting and auditing has been due in no small measure to educators who became interested in public administration and governmental affairs. Books dealing with these topics were written and courses of instruction were introduced in colleges and universities. In addition, the Organization of Municipal Finance Officers of the United States and Canada was formed. This group has been very influential in improving accounting and auditing requirements for state and local government.

The introduction of public administration as part of university and college education contributed greatly to better accountability and administration. When public administration graduates came into government service, their impact was extremely important. They began to insist on better financial reporting and more effective financial accountability.

The civil service system, of course, has had a great impact. We all know some of its deficiencies, but nevertheless it has produced some desirable results. Government reorganization has also been important. It has usually been forced upon government because of economic conditions and because of the ineffectiveness of antiquated governmental procedures. This new streamlining of government structure has generally resulted in the establishment of a finance department or a department of administration, which has consolidated the financial activities in a central, coordinated body.

Present Status of Governmental Accounting

In 1958, when I served as chairman of the Institute's governmental accounting committee, we concluded that there was a need to know something about audit requirements and the use of independent auditors in state and local government throughout the United States. The committee members agreed to develop the required information. It was a rather ambitious project, considering that we did not have available staff and that our committee was small. Nevertheless, after three years, our study was completed. It

was impossible at that time to get information about all of the states. In ten states, we were unable to get *any* information. But, at least, our report was a beginning. For the first time, we had a definite basis for determining what use was being made of independent auditors.

In 1964, the accounting firm of which I was then a member decided to update the report. We were finally able to obtain information from every state, although some of it was not as complete as we wanted. Nevertheless, it was a substantial improvement over what we had done in 1961. It was interesting to note that between 1961 and 1964, additional laws concerning the use of independent auditors had been enacted, and these auditors were working for municipalities, school districts, counties, and the state government itself. At that time, there were still 13 states that had no audit requirement other than a periodic audit by the state auditor.

Tim McCaffrey [manager, AICPA state legislation] recently completed a survey of all the states in an attempt to update the information again. The results indicate that, as of today, at least some units of local government in every state use independent auditors; this applies particularly to school districts. There are no states where there is a complete exclusion of CPAs from governmental work. There are still some states, of course, where the state auditor or the legislative auditor by statute does most of the work, or is required to do it. But these statutes have been amended or interpreted to permit the state officials to employ independent auditors to assist them in their work. It is very interesting to discover the significant increase that has occurred in the number of governmental units that are required to have independent audits.

In 1961, when the study was first compiled, there was substantially no authorization for the use of independent auditors in Pennsylvania. By 1964, the number of governmental units that required audits by independent CPAs had reached the point where it took two and one-half pages in our report. In 1968, the listing took four pages.

Prospects for the Future

I have always felt, over the years, that one of the great areas of service that was overlooked by the public accounting profession was

the field of government. I think this is still true. A CPA has a civic and professional obligation to take an interest in what is going on in state government. He can probably do as much or more than any professional man concerning the use of public money.

Up to two years ago, there was a strong trend toward increasing the use of CPAs for audits of governmental units. However, another trend which began at that time and continues to some extent today was for state or legislative auditors to curtail the expansion of independent audits and reserve the performance of that function to their employees. I do not know exactly why this has come about, but there could well be some reluctance on the part of an elected or appointed official to do something that is going to curtail his own sphere of activities. Also there could be some disillusionment with the quality of work that has been furnished. Or it may be due to the fact that many state legislators—and bear in mind that they change office with some frequency—who are on a legislative audit commission really do not have a good understanding of what an audit is supposed to be or what the auditor's responsibilities are. Legislators and some other government officials often believe that an audit is a complete guarantee of the accuracy of all financial affairs.

Whether this trend is going to continue, I do not know. It appears that there will be increasing emphasis on management audits. Michigan, the first state to do so, has enacted a "performance post audit." This extension of audit scope will create serious reporting and public responsibility problems for the CPA.

Despite this, I still feel that government auditing is a function that can best be performed by the CPA. Because of his professional competence and independence, he is better qualified to render this service. Moreover, I think that, in the long run, it will cost less to have it done on this basis.

Admittedly, it is very difficult to get a picture of true comparative costs. Some limited studies were made in Illinois a few years ago in an attempt to compare costs of audits done by independent public accountants with those done by state employees. The fragmentation of audit functions in different departments makes it difficult to determine precisely the number of state employees engaged in auditing activities. The general conclusion, however, was that it cost no more to use independent public accountants than to use governmental employees.

A most important consideration is that a state auditor needs staff to carry out his regular duties and that, under present conditions, he cannot recruit the quality of staff he needs to do his job effectively. It is almost impossible to maintain a sizable and qualified staff to audit all the governmental units required at the proper time. Therefore, I think that, wherever possible, there should be greater use of CPAs for the audits of state and local governments.

Summation and Adjournment

Kenneth L. Thompson, CPA, Vice President, American Institute of CPAs; Past Chairman, AICPA Committee on State Legislation; Past President, California Society of CPAs.

My JOB is to summarize the Third National Conference on State Legislation. My summary logically divides itself into the three major areas that were discussed by our speakers. I'm not going to try to review every detail of the Conference, but I would like to make some significant observations on each of these areas.

Legislative Action

In summarizing the remarks of the speakers and the discussion groups concerned with this topic, it appears that we still have a long way to go in developing the effectiveness of our legislative programs. However, we have made a good beginning. Some states are using a variety of techniques to achieve their legislative objectives. One idea that emerged was the use of political action committees, which involves the collection and distribution of funds contributed by CPAs. These funds, of course, are used to help finance the campaigns of specific state legislators. Political action committees are working well in some states, while in others they have not been considered appropriate to the political environment.

A great deal of emphasis was placed on the need to maintain frequent contact between CPAs and their legislators. Nobody, however, seems to know how to make sure that this is done. It was said that, if anybody could ever discover how to motivate CPAs to

undertake this kind of activity, they would have the answer to a very serious problem.

Political involvement by CPAs warranted considerable discussion in three different areas—campaigns, running for office, and public service on various government commissions and agencies. One group spent quite a bit of time on this subject and came up with two conclusions which I found very interesting, and which I want to pass on to you: (1) State societies should have a definite program to get more CPAs elected to state legislatures. (2) CPA societies should motivate their members by showing them that political activity can have personal, social, and monetary rewards as well as direct benefits to the profession.

This is not the first time that the desirability of electing more CPAs to legislative office has been discussed. Nobody seems to have found an answer to the question of how a practicing CPA can find time between January 1 and April 15 to serve in a state legislature. Some of you come from states where CPAs *do* serve in the legislature. In California it has been a long time since a practicing CPA served in our legislature, yet I think everybody realizes this is highly desirable.

Finally, there was a great deal of discussion about the need for specific planning, not only for the type of legislation desired but also for the legislative campaign that will lead to its ultimate enactment.

Education and Experience Requirements

This session was interesting and provocative. You heard the recommendations that will be submitted by the committee on education and experience requirements for CPAs to the Council of the Institute in the spring [1969]. You also heard that 1975 is the target date for the implementation of the report. Implementing the report is going to give rise to a number of problems with universities and colleges, to say nothing of legislatures. I can see that a great deal of planning will be needed when the report of the committee on education and experience requirements for CPAs becomes policy.

I want to express personal concern over the emerging definition of the CPA certificate as I understand it. We seem to be heading in the direction of defining the CPA certificate as evidence of basic competence in the discipline of accounting, of having attained a

specified level of knowledge in accounting and related disciplines. I am concerned over the disappearance of the emphasis on the *attest function*. My feeling has always been that the hallmark of the CPA, and coincidentally the certificate which he possesses, is his competence to perform the attest function. I think that this is of much greater social and economic significance in our present environment than the attainment of knowledge in a specific field. If we are going to be de-emphasizing the significance of the CPA certificate as it relates to the attest function, I think we will be losing something that has always been fundamental to our profession.

Accountancy Laws and the Courts

Everyone is convinced of the need for competent legal counsel. This point, of course, was ably presented by our three speakers. One new thought that I gained from this last session was the apparent need to educate the courts in the area of accounting and auditing, its significance, and its role in our economy. How we go about that is probably a question to be determined later. We seem to have been successful over the years in our efforts to educate credit grantors on the role of the CPA. It would seem to me that educating the courts would be a logical extension of that effort.

From this session, I think we received a little better idea of the interrelationships between the state and federal constitutions and the role the courts have had in shaping accounting laws.

Trends in the Profession

If one had to draw a conclusion from this conference, it would seem to be that the profession is in ferment. But it is really no different than it ever has been. We are undergoing a slow but sure process of overhauling the education and experience requirements for the CPA certificate. This process was started 14 years ago with the appointment of the first commission to study standards of education and experience. As you know, the regulation of the attest function is becoming more important. The words "attest function" were not widely used three or four years ago, except in a very technical sense.

Another current development is the consideration of licensing a

technician class of accountants. When the Council meeting adjourned in 1964, there were some of us who were naive enough to believe that the matter had been put to rest. It is now apparent that not only was it not put to rest but that it will be a more lively issue than ever in the future.

All of this leads me to recognize another trend that seems to be developing—the increasing trend toward diversity rather than uniformity. Over the years, we have all agreed, or seem to have agreed, that uniformity is a desirable objective. Yet, in reviewing the notes of the discussion groups, I found that in the face of the report of the committee on education and experience requirements for CPAs, one state may now *increase* its experience requirement, rather than decrease it. It seems that in 54 jurisdictions we have 54 different ideas on the standards for the CPA certificate.

At the Second National Conference on State Legislation, John L. Carey proposed the formation of a national commission on accounting legislation. The committee on state legislation supports this idea. If nationally uniform accounting legislation is desirable, we may well be at the point where we must press for early action on the formation of this commission.

Accounting legislation that exists today in our country may need to be made more responsive to the environment in which we are operating. There is some evidence to indicate that at the present time it is not responsive.

I want to express my thanks to the speakers, who have taken a lot of time to prepare their very informative papers, the discussion leaders, the secretaries, and finally and very importantly, the members of the Institute staff who have done such a fine job in handling the arrangements and the organization of this conference.